ably less severe than might be expected from just a brief glance at the gross statistics.

Thank you.

Chairman PROXMIRE. Thank you very much, Mr. Eisenmenger.

Our next witness on regional impact, current and past impact of the Vietnam war, is Prof. Roger E. Bolton of the department of economics at Williams College. Mr. Bolton.

STATEMENT OF DR. ROGER E. BOLTON, DEPARTMENT OF ECONOMICS, WILLIAMS COLLEGE

Mr. BOLTON. Thank you, Mr. Chairman.

REGIONAL IMPACT

In this area, the first question we must ask is just why the regional effects of economic trends and policies are important. The ultimate goal of economic policy is the benefit of persons. The effect on people is what should concern us. Except for the fact that Congressmen and Senators represent specific regions, why are regional groupings of people important? Why does the regional tag on people matter?

It would not matter if there were perfect mobility of people between regions. In that case economic policy would need only to aim for a balance between supply and demand at the national level, as far as full employment and stability policies were concerned. Changes in aggregate demand, such as an increase or decrease in defense spending, could be offset by general monetary and fiscal measures, and it would not matter whether the regional distribution of demand changed as a result. In regions where demand declined there would be unemployment at first, and in regions where it increased there would be labor shortages and inflation. Regional adjustments of two kinds would occur, and they would eliminate both the unemployment and the inflation. First, labor would move away from the declining area to the expanding area, attracted by rising wages and employment opportunities in the latter. Second, if the declining area is suitable for production of some items in demand in the new situation, industry would move into the declining area, to escape higher wages and labor shortages. Eventually equilibrium would be reached with full employment in all areas, as long as the national total of aggregate demand were adequate.

But, of course, mobility is not perfect, especially for older, less skilled, and less educated workers. Mobility between areas seems even less perfect than between industries in the same area, since the barrier of geographical distance is added to other barriers. When there are changes in composition of demand by product, such as might be caused by the net effect of a change in defense spending and aggregate policies to offset it, the resulting unemployment in some regions and excess demand in others will not be quickly eliminated by the regional adjustments described. Labor may be reluctant to move until inflation and unemployment have become severe and persisted a long time. If an area had produced some very specialized product, the demand for which had fallen, and if the area is not suitable for products the demand for which has gone up, industry will not expand into it and